

Message Text

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FM AMEMBASSY BELGRADE

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TAGS: ECON, EGEN, EFIN, EINV, YO

SUBJECT: YUGOSLAV ECONOMIC RESULTS IN FIRST HALF 1978

SUMMARY: JUDGING BY PRELIMINARY PRESS REPORTS, THE YUGOSLAV CURRENT-ACCOUNT DEFICIT DURING JANUARY-JUNE MAY HAVE BEEN SLIGHTLY UNDER LAST YEAR'S RECORD BECAUSE OF BOOMING TOURISM RECEIPTS AND CONTINUING DEPRECIATION OF THE DINAR. THE GLOBAL TRADE DEFICIT (ANNUAL RATE) WAS CLOSE TO THE 4.4 BILLION DOLLARS LEVEL OF 1977; A SIMILAR HARD-CURRENCY TRADE IMBALANCE WAS REPORTED THROUGH MAY. THE MAIN REASON FOR THE HIGH DEFICITS REMAINS EXPANSIONARY GOVERNMENT POLICIES WHICH, TO LIMIT DOMESTIC POLITICAL TENSIONS, HAVE KEPT OUTPUT AND LIVING STANDARDS RISING RAPIDLY AND MAY HAVE SLOWED THE RISE IN UNEMPLOYMENT. SUCH POLICIES HAVE BEEN MADE POSSIBLE BY EASY EXTERNAL FINANCING OF ATTENDANT DEFICITS. NO MAJOR CHANGE IN BELGRADE'S EXPANSIONARY STRATEGY IS YET IN SIGHT, THOUGH EXTERNAL DEFICITS MAY BE TRIMMED marginally BEFORE YEAR-END BY MINOR RESTRICTIONS RECENTLY ANNOUNCED. END SUMMARY.

1. THE VALUE OF BOTH YUGOSLAV EXPORTS (2.57 BILLION DOLLARS) AND IMPORTS (4.74 BILLION DOLLARS) DURING JANUARY-JUNE 1978 WAS 1 PERCENT UNDER FIRST HALF 1977 FIGURES. DECREASES IN UNCLASSIFIED

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EXPORT AND IMPORT VOLUME WERE MUCH LARGER. THE EXPORT DROP IS ATTRIBUTABLE TO BUOYANT DOMESTIC DEMAND AND TO LIMITED DEMAND IN THE DEVELOPED WEST. THE IMPORT DECLINE PROBABLY REFLECTED MEASURED GOVERNMENTAL TIGHTENING OF COUNTERTRADE REQUIREMENTS AS WELL AS DEPRECIATION OF THE DINAR RELATIVE TO MANY WEST EUROPEAN CURRENCIES. BY RAISING PRICES OF WEST EUROPEAN GOODS, DEPRECIATION MAY HAVE DETERRED YUGOSLAV IMPORTERS

FROM SOME PURCHASES.

2. COMPARED WITH FIRST HALF 1977, SHARES OF YUGOSLAV TRADE ROSE SLIGHTLY FOR THE DEVELOPED WEST (OVER 50 PERCENT) AND FOR CUMMUNIST COUNTRIES (OVER 32 PERCENT) AT THE EXPENSE OF LDC'S (17 PERCENT, DOWN FROM 18.4 PERCENT). THE MAIN COM-MODITIES WHOSE VALUE DECLINED WERE MACHINERY EXPORTS (DOWN 26 PERCENT) AND CONSUMER-GOOD IMPORTS (DOWN 20 PERCENT). THESE REDUCTIONS OUTWEIGHED INCREASES IN AGRICULTURAL EXPORTS (14 PERCENT) AND ENERGY IMPORTS (25 PERCENT THROUGH MAY). OIL IMPORTS ALONE WERE UP 400 MILLION DOLLARS AT AN ANNUAL RATE.

3. TH CURRENT-ACCOUNT DEFICIT DURING JANUARY-JUNE 1978 WAS POSSIBLY PUSHED UNDER THE 1977 RATE (1.7 BILLION DOLLARS) BY TOURISM EARNINGS, WHICH REPORTEDLY ARE RISING 15-20 PERCENT. GROWTH OF YUGOSLAV TOURISM PAYMENTS ABROAD MAY ALSO BE SL IN VIEW OF A RAPID INCREASE IN YUGOSLAVS VACATIONING AT HOME.

4. DOMESTICALLY, THE IMPORT BOOM CONTINUES TO TAKE SOME UPWARD PRESSURE OFF PRICES. THE COST OF LIVING ROSE 13 PER-CENT THROUGH MAY, VS. 14 PERCENT IN JANUARY-MAY 1977 AND AN 18 PERCENT ANNUAL AVERAGE FOR THE 1970'S.

5. BOTH POLICY STIMULI AND RESULTING ECONOMIC GROWTH RATES IN THE FIRST HALF WERE GREATER THAN THOSE PLANNED FOR FULL-UNCLASSIFIED

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YEAR 1978. THE MONEY SUPPLY WAS EXPANDED 28 PERCENT OVER THE LEVEL OF A YEAR AGO; THE 1978 PLAN CALLS FOR ONLY A 21 PERCENT RISE. SOCIAL PRODUCT WAS UP 21 PERCENT, FIXED INVESTMENT SPENDING 44 PERCENT IN MONEY TERMS. IN REAL TERMS, INDUSTRIAL PRODUCTION GREW 8.3 PERCENT KVS. 7-8 PER-CENT PLANNED).

6. THE CONSUMER SECTOR CONTINUES TO MAINTAIN OR EXPAND ITS SHARE OF THIS GROWTH. IN FIRST HALF 1978, NOMINAL PERSONAL INCOME ROSE 29 PERCENT, FASTER THAN SOCIAL PRODUCT. DURING JANUARY - APRIL, REAL INCOME PER WORKER WAS UP 8 PERCENT, VS. A 3 PERCENT INCREASE IN LABOR PRODUCTIVITY.

7. UNEMPLOYMENT REMAINS HIGH, THOUGH THE RATE OF INCREASE MAY BE SLOWING. AT END APRIL REGISTERED JOB-SEEKERS NUMBERED 738,000. THE REPORTED RISE FOR JANUARY-MAY 1978 VS. THE SAME PERIOD OF 1977 WAS 5 PERCENT --DOWN FROM 13 PERCENT GROWTH A YEAR AGO. THE SLOWDOWN REFLECTS THE DOMESTIC BOOM AND PERHAPS ALSO A REPORTED TAPERING OFF IN THE NUMBER OF WORKERS RETURNING FROM WESTERN EUROPE.

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8. THE EFFECTIVENESS OF INDUSTRIAL GROWTH IS HAMPERED BY AN INCREASINGLY UNBALANCED INDUSTRIAL STRUCTURE, WHICH CONTRIBUTED TO BOTH EXTERNAL DEFICITS AND REGIONAL ECONOMIC DISPARITIES. CONTRARY TO THE FIVE-YEAR-PLAN, PRODUCTION IN FIRST HALF 1978 STILL ROSE FASTEST FOR CHEMICALS (UP 17 PERCENT) AND MACHINERY (UP 15 PERCENT) -- INDUSTRIES CONCENTRATED IN AFFLUENT NORTHERN REGIONS. OUTPUT DECLINED ABSOLUTELY IN COAL PROCESSING AND IN CRUDE OIL, NONFERROUS METAL, AND IRON-ORE SECTORS; GROWTH OF FERROUS METALS AND MINING PRODUCTION IS BEHIND THE FIVE-YEAR PLAN SCHEDULE. DEVELOPMENT OF THESE BASIC SECTORS IS IMPORTANT FOR IMPORT SUBSTITUTION AND FOR STIMULUS TO LOW-INCOME SOUTHERN REGIONS, WHERE MOST NEW ORE DEPOSITS ARE LOCATED. KOSOVO, YUGOSLAVIA'S LEAST DEVELOPED PROVINCE, REPORTED NONAGRICULTURAL OUTPUT UP ONLY 3 PERCENT (VS. AN 8 PERCENT NATIONAL AVERAGE) FOR JANUARY-MAY.

9. THE ENERGY/MINING SHORTFALLS ARE APPARENTLY DUE IN PART TO (A) THE HIGH COSTS OF SUCH ITEMS IN YUGOSLAVIA RELATIVE TO IMPORTS AND (B) THE LACK OF INFANT-INDUSTRY PROTECTION. WHEN PRICES ARE SET LOW (AS IN THE COAL INDUSTRY), PROFITS ARE DECREASED AND INVESTMENT DISCOURAGED. WHEN (AS IN SLOVENIA RECENTLY) OIL PRODUCT PRICES ARE RAISED TO COVER PRODUCER COSTS AND TO REFLECT DOMESTIC SHORTAGE, SOME CUSTOMERS SWITCH
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TO LOWER-PRICED IMPORTS.

10. FULL YEAR 1978 COULD SEE A FURTHER DECLINE OF THE CURRENT-ACCOUNT DEFICIT UNDER THE 1977 LEVEL AND SOME SLOWDOWN IN ECONOMIC GROWTH DESPITE PRESSURES TO BOOST BOTH IN ORDER TO CATCH UP TO THE FIVE YEAR PLAN SCHEDULE. SOME OIL INDUSTRY OFFICIALS CLAIM A 20 PERCENT SPEEDUP IN OIL IMPORTS WILL BE NECESSARY THIS YEAR TO COVER FUEL OIL, GASOLINE, AND PETRO-CHEMICAL REQUIREMENTS. BUT DOMESTIC DEMAND MAY NEVERTHELESS BE SLACKENING: INDUSTRIAL INVENTORIES WERE UP 5 PERCENT THROUGH MAY AFTER DECLINING A YEAR AGO. MOREOVER, BELGRADE RECENTLY ANNOUNCED MINOR EFFORTS AT BELT-TIGHTENING. THE NATIONAL BANK WILL TRY TO LIMIT GROWTH OF SOME CATEGORIES OF BANK CREDITS TO 4 PERCENT DURING JULY -SEPTEMBER. IMPORTS OF CONSUMER DURABLES ARE NOW PROHIBITED FOR INDIVIDUAL YUGOSLAVS AND ARE LIMITED TO IMPORTERS AND DISTRIBUTORS. WITH CERTAIN MINOR EXCEPTIONS. FOR EXAMPLE, RADIOS/RECORD PLAYERS COSTING LESS THAN 160 DOLLARS MAY STILL BE IMPORTED INDIVIDUALLY.
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